

# ECONOMIC PULSE

## FRANCE: BUSINESS SURVEYS SET TO DETERIORATE SIGNIFICANTLY

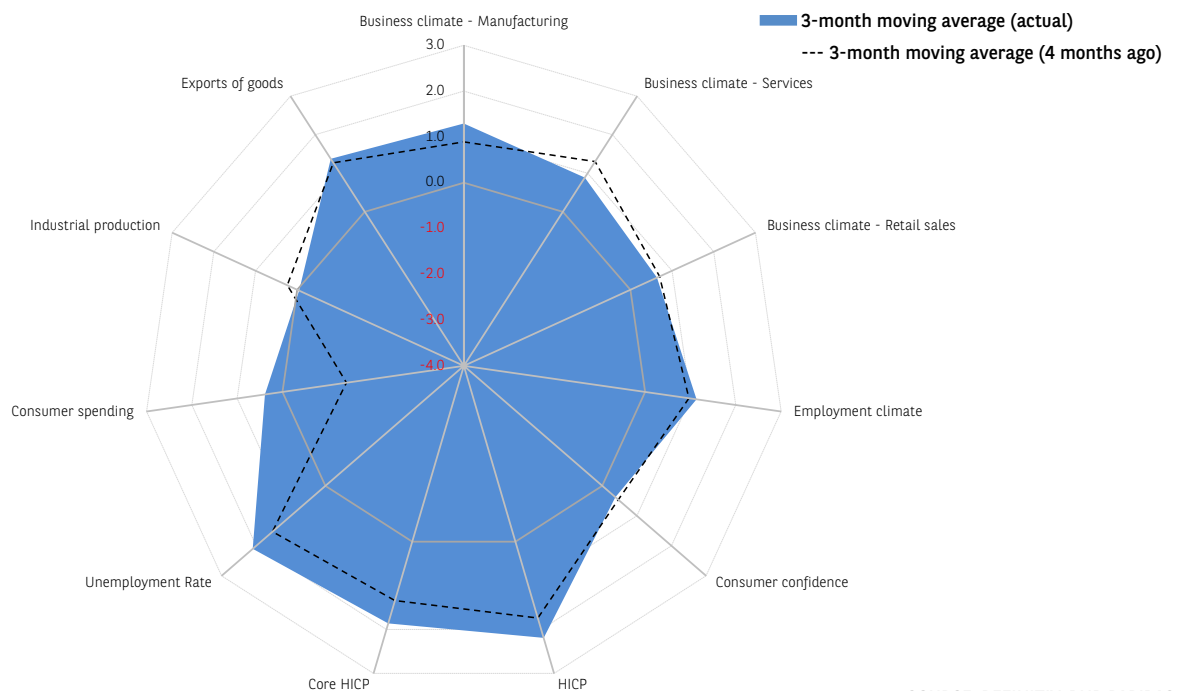
French GDP growth remained positive in early 2022, as illustrated by the relatively stable INSEE’s survey results through February, in terms of households, businesses and employment. Inflation rose significantly in February, up 3.6% y/y, but it was held down by the stability of regulated gas prices and the cap on electricity prices, which rose only 4%. According to the INSEE’s most recent economic update, inflation would have hit 5.1% without these control mechanisms.

The situation changed with the outbreak of war in Ukraine. First, the war’s impact on oil prices should trigger another surge in inflation as of March, which we estimate at 4.5% y/y, the highest since 1985. Second, the INSEE released the preliminary results of its next business and household surveys (conducted between 24 February and 9 March). They reveal a nearly 15-point deterioration in household opinions of their standard of living, in keeping with their perception of a decline in purchasing power. At the same time, personal production prospects were much more negative in the manufacturing sector (the balance of opinions declined by more than 20 points) due to greater supply chain problems and higher commodity costs. Moreover, the survey of cash levels of big and mid-sized companies, conducted jointly by Rexecode and AFTE, indicates a 12-point decline in the balance of opinions of business leaders concerning operating cash flow.

Faced with the multiple negative repercussions from the war in Ukraine, the French government unveiled its Resilience Plan on 16 March. The main measures include a subsidy on gasoline prices (EUR 0.15 per litre as of 1 April) and a series of targeted corporate measures that notably cover part of the increase in the energy bill. Wages are also set to rise with an increase in the civil servant wage index before the summer. Moreover, the minimum wage should also increase automatically on 1 May because price increases should have exceeded 2% since the beginning of the year. Yet these measures will have a lagging impact on the loss of purchasing power already observed in Q1, which is bound to hamper growth. All in all, French GDP growth is estimated at 0.3% q/q in Q1, according to our estimates and those of INSEE (compared to +0.7% in Q4 2021). It is expected to slow down further in Q2, with growth being virtually flat.

**Stéphane Colliac**

### FRANCE: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

The indicators in the radar are all transformed into ‘z-scores’ (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +3. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.

